

BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

PUBLIC UTILITIES
COMMISSION

2009 JUN -3 P 1:33

FILED

In the Matter of the Application of)	
)	
HAWAIIAN ELECTRIC COMPANY, INC.)	DOCKET NO. 2008-0083
)	
For Approval of Rate Increases and)	
Revised Rate Schedules and Rules)	

FIRST SET OF REBUTTAL INFORMATION REQUESTS
ON BEHALF OF THE DEPARTMENT OF DEFENSE.

AND

CERTIFICATE OF SERVICE

JAMES N. McCORMICK
Associate Counsel (Code 09C)
Naval Facilities Engineering Command, Pacific
258 Makalapa Drive, Suite 100
Pearl Harbor, HI 96860-3134
Telephone (808) 472-1168

ATTORNEY FOR
DEPARTMENT OF DEFENSE


BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)	
)	
HAWAIIAN ELECTRIC COMPANY, INC.)	DOCKET NO. 2008-0083
)	
For Approval of Rate Increases and)	
Revised Rate Schedules and Rules)	
)	

FIRST SET OF REBUTTAL INFORMATION REQUESTS
ON BEHALF OF THE DEPARTMENT OF DEFENSE.

COMES NOW, DEPARTMENT OF DEFENSE by and through its undersigned attorney
and hereby submits its First Set of Rebuttal Information Requests to Hawaiian Electric Company,
Inc.

DATED: Honolulu, Hawaii, June 3, 2009.

for 
JAMES N. McCORMICK
Associate Counsel (Code 09C)
Naval Facilities Engineering Command, Pacific
258 Makalapa Drive, Suite 100
Pearl Harbor, HI 96860-3134
Telephone (808) 472-1168

ATTORNEY FOR
DEPARTMENT OF DEFENSE

FIRST SET OF REBUTTAL INFORMATION REQUESTS

TO HAWAIIAN ELECTRIC COMPANY, INC.

QUESTIONS FOR COMPANY WITNESS ALM

1. [Ref. Alm Rebuttal, p. 14, ll. 9, 10] Please detail and describe all parts of the “incentive realignment” element of the Energy Agreement to which Mr. Alm refers.
2. [Ref. Alm Rebuttal, p. 14, l. 11] Please provide all available support to explain why an agreement between the State of Hawaii (the Governor’s Office), the Consumer Advocate and the Company to change not only the primary fuel source of the utility through conservation and capital additions but also to change the basis on which rates are collected, which has been codified by the Legislature, does not represent a “new direction” for HECO. Please also provide all other historical examples where agreements between the State, the Consumer Advocate and the Company of this magnitude have been reached and have been included in State law.
3. [Ref. Alm Rebuttal, p. 15, l. 20 and p. 17, l. 11] Please provide complete copies of HB 1464 and Act 50 cited by Mr. Alm.
4. [Ref. Alm Rebuttal, p. 17, ll. 5,6] Please list the “new powers and duties” of the State’s Energy Resources Coordinator.
5. [Ref. Alm Rebuttal, p. 17, l. 14] Please explain why Mr. Alm characterizes the Hawaii Legislature’s action to facilitate permitting of big wind projects and promote the use of biofuels as “significant.” Please also explain how the

renewable energy siting process is now different from the siting process for fossil fuel plants.

6. [Ref. Alm Rebuttal, p. 22, l. 21 through p. 23, l. 2]
 - a. Please provide any analysis performed by the Company which extrapolates its own historical experience with the reliability of renewable energy supplies and shows that it will be a threat to system reliability as the percentage of renewables increases relative to the total generation base.
 - b. Are there any aspects of the Energy Agreement that attempt to address reliability issues that may arise from renewable resources? If so, please list them; if not, please explain why not.
7. [Ref. Alm Rebuttal, p. 23, l. 3] Please provide complete copies of all correspondence between HECO and S&P regarding the Energy Agreement prior to the issuance of the November 26, 2008 ratings report.
8. [Ref. Alm Rebuttal, p. 28, l. 18 through p. 29, l. 5] If the target revenue requirement authorized by the Commission includes an allowed return on common equity, and the target revenues will be recovered through the RBA, is it true that the allowed return on equity included in those revenues will also be recovered by the Company? If so, please explain why; if not, please explain why not.
9. [Ref. Alm Rebuttal, p. 32, ll. 7-15]

- a. Is it Mr. Alm's opinion that moving purchased power costs from base rates to an automatic surcharge will reduce risks for the Company? If not, please explain why not.
 - b. Will the creation of a separate surcharge for purchased power costs cause S&P to reduce the percentage of demand costs included as debt equivalents for bond rating purposes? If not, please explain why not.
10. [Ref. Alm Rebuttal, p. 56, l. 18] Please explain how, with decoupling, a weakening Hawaii economy would negatively impact HECO's revenues.
11. Does the Company's request for an 11% ROE, which is the low end of Dr. Morin's updated range and which is below its original request of 11.25% signify the Company's belief that the Energy Agreement, on balance, will lower the Company's risk and required return? If not, please explain why not. [Note: this is not a theoretical rate of return question for Dr. Morin, but rather a corporate policy question for Mr. Alm.]

QUESTIONS FOR MR. SEKIMURA

12. [Ref. Sekimura Rebuttal, p. 4, ll. 1-4] Does the ability of HECO to access debt through revenue bonds afford it lower cost debt than would be available if the Company issued debt (e.g., debentures) directly to the market? If so, why; if not, why not?
13. [Ref. Sekimura Rebuttal, p. 4, l. 9] Please provide complete copies of the correspondence related to projected debt costs received from bankers in April 2009.

14. [Ref. Sekimura Rebuttal, p. 6, ll. 2-4] Page 4 of HECO-RWP-2007 shows a debt/capital ratio of 56% with the assumption of a 50% allocation of the present value of purchased power demand charged to debt. Please respond to the following;
- a. What would the debt/capital ratio be if the percentage were 25%? Please provide supporting documentation.
 - b. If the allocation percentage were 25% and not 50% , what portion of the \$100 million equity infusion would be necessary in order to maintain a 56% debt/capital ratio? Please provide support for your response.
 - c. Has the Company discussed with S&P the impact on the purchased power allocation percentage of moving all purchased power expense recovery out of base rates and into a separate recovery mechanism? If so, please provide any such correspondence or memos; if not, please explain why not.

15. [Ref. Sekimura Rebuttal, p. 7]
- a. Please indicate how the Company determined that S&P's FFO/interest "range" for a BBB rating is 3.0-3.5.
 - b. Please indicate how the Company determined that S&P's FFO/debt ratio for a BB+ rating is 10-16.67%.
 - c. Please explain how the Company determined that S&P's debt/capital ratio for a BB+ rating is 55%-60%.
 - d. For a company with a "strong" business profile, please provide the Company's determination of appropriate FFO/interest, FFO/debt and

debt/capital for BBB-, BBB, BBB+, and A- bond rating categories. Please also provide the supporting documentation from S&P and assumptions on which those ranges are based.

16. [Ref. Sekimura Rebuttal, p. 8, l. 17]

- a. Please provide complete copies of all correspondence, notes, memos, materials, e-mails, and recordings (if any) related to the May 2009 “discussions” between HECO and S&P.
- b. What were HECO’s payments to S&P in 2007, 2008 and thus far in 2009? Please provide support for your response.

17. [Ref. Sekimura Rebuttal, p. 12, ll. 18, 19] Please list the capital expenditures planned by the Company that involve “uncertainty relating to...technology.” Which of the technologies intended to be deployed by HECO would be the initial application of such technology (not just in Hawaii, but anywhere)? Which of the following technologies has HECO not previously employed: wind, geothermal, biomass, solar?

18. [Ref. Sekimura Rebuttal, p. 15, ll. 7-13]

- a. Is it witness Sekimura’s testimony that undersea electric power transmission does not currently exist? If so, please provide support for that belief.
- b. Is it witness Sekimura’s testimony that the integration of numerous renewable sources through purchased power agreements has “never been attempted” in Hawaii or “perhaps anywhere”? If so, please provide all available support for that contention.

- c. Is it witness Sekimura's testimony that oil-fired generating plants have never been converted to run on biofuels? If so, please provide support for that contention.
 - d. Please provide any available support to show that AMI is an untried technology.
- 19. [Ref. Sekimura Rebuttal, p. 15, l. 19 through p. 16, l. 2] What are the current plans for financing the 400 MW wind farm on Lanai and Molokai and the undersea transmission line, and how would those plans impact HECO's balance sheet? Please provide support for your response.
- 20. [Ref. Sekimura Rebuttal, p. 18, ll. 10, 11] Please provide a complete copy of the report cited.
- 21. [Ref. Sekimura Rebuttal, p. 19, ll. 9-14] Please explain how the rate treatment of purchased power costs as outlined in the Energy Agreement is different from the prior rate treatment.
- 22. [Ref. Sekimura Rebuttal, p. 20, ll. 2-12]
 - a. If S&P has indicated that it will reduce its risk factor to 25% as a result of the new purchased power agreement, please explain why the Company used 50% in its calculation of financial ratios.
 - b. Please provide a re-calculation of all financial ratios in RWP-2007 using a 25% risk factor.
- 23. [Ref. Sekimura Rebuttal, p. 23, l. 10] Please provide a complete copy of the report cited?

QUESTIONS FOR COMPANY WITNESS FETTER

24. Please provide a complete copy of the contract under which Mr. Fetter is providing his services in this proceeding.
25. [Ref. Fetter Rebuttal, footnote 1] Please provide a complete copy of the report cited.
26. [Ref. Fetter Rebuttal, pp. 5, 6] Please provide a complete copy of the remarks of NYPSC Chairman Brown, Morgan Stanley analyst Ianno and Southern Company CFO Bowers cited in part in Mr. Fetter's testimony.
27. [Ref. Fetter Rebuttal, p. 8, ll. 10-12]
 - a. How many of the 40 purchased power adjustment clauses cited by Mr. Fetter allow recovery of a) all purchased power costs including all capacity, O&M and other non-energy payments, and b) are adjusted monthly and trued-up quarterly?
 - b. Is Mr. Fetter of the opinion that the purchased power mechanism to be implemented under the Energy Agreement would lower HECO's operational risk compared to its prior PPAC? If so, how; if not, why not?
28. [Ref. Fetter Rebuttal, footnote 3] Please provide a complete copy of the RRA publication cited.
29. [Ref. Fetter Rebuttal, footnote 4] Please provide a complete copy of the S&P publication cited.
30. [Ref. Fetter Rebuttal, p. 9, ll. 22-26] On what basis does Mr. Fetter make the assessment that a 25 basis point adjustment for decoupling is reasonable but a 50

basis point adjustment is not? Please provide any available support for your response.

CERTIFICATE OF SERVICE

I hereby certify that one copy of the foregoing document was duly served upon the following parties, by personal service, hand-delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR sec. 6-61-21(d).

Ms. Catherine P. Awakuni
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs
P. O. Box 541
Honolulu, HI 96809

2 Copies


Darcy L. Endo-Omoto
Vice President - Government and Community Affairs
Hawaiian Electric Company, Inc.
P. O. Box 2750
Honolulu, HI 96840-0001

Mr. Dean K. Matsuura
Manager – Regulatory Affairs
Hawaiian Electric Company, Inc.
P. O. Box 2750
Honolulu, HI 96840-0001

Thomas W. Williams, Jr., Esq.
Peter Y. Kikuta, Esq.
Damon L. Schmidt, Esq.
Goodsill Anderson Quinn & Stifel
Alii Place, Suite 1800
1099 Alakea Street
Honolulu, HI 96813

Counsel for Hawaiian Electric Company, Inc.

DATED: June 3, 2009, Honolulu, Hawaii


JAMES N. McCORMICK
Associate Counsel
Naval Facilities Engineering Command,
Pacific